

### Strategically choosing venue at the intersection of corporate and patent law

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The Supreme Court's recent decision in *TC Heartland LLC v Kraft Foods Group Brands LLC* has led many commentators to proclaim that the decision may result in most patent cases being litigated in Delaware. Instead of acquiescing to this notion and researching the Internet for the best patent attorneys in Delaware, a business entity that would rather be sued in its home state should consider incorporating or reincorporating in its home state. Forming or incorporating in the state where the company's principal place of business is located will allow a company to litigate in a more convenient venue and have greater familiarity with the courts who will decide patent suits involving the company.

Venue is only proper in patent infringement cases "in the judicial district where the defendant *resides*, or where the defendant has committed acts of infringement and has a regular and established place of business" (emphasis added). In *TC Heartland* the Supreme Court held that for purposes of the patent venue statute (28 USC Section 1400(b)), a domestic company is only deemed to "reside" in the state of incorporation. This case was a reaffirmation of the court's decision in *Fourco Glass Co v Transmirra Products*, which determined that Section 1400(b) is the "sole and exclusive" venue provision for patent infringement actions. Thus, unless and until Congress amends Section 1400(b), patent infringement actions may be brought only in the judicial district where the defendant is incorporated or in the judicial district where the defendant has committed acts of infringement and has a regular and established place of business.

As a result of *TC Heartland*, plaintiffs now have fewer choices about where to file patent infringement suits. This means that companies, as potential defendants, can better control where the litigation takes place. One way of doing this is by forming or incorporating in the company's home state. It is true that some venture capitalists and hedge funds sometimes desire companies to incorporate in a particular state. Incorporating in a state like Delaware, Nevada or Wyoming may come with certain tax advantages, well-established corporate laws and special court systems. However, these benefits often come with additional costs or burdens to the corporation.

First, a company that is incorporated outside its home state must register in the state of its principal place of business as a 'foreign' entity and will generally have to pay franchise taxes in both states. These additional costs can be avoided by forming in the same state where the principal place of business is located. Second, incorporating in a foreign state may leave a corporation's directors and officers open to the personal jurisdiction of the state of incorporation under "director and officer implied consent statutes". For example, Delaware's statute (10 Del C Section 3114) has been interpreted by the Delaware Supreme Court to allow for the exercise of personal jurisdiction over non-resident directors or officers in certain situations. Finally, because less than 1% of all start-ups receive venture capitalist funding, most start-up companies are free to choose where to incorporate.

While litigation is sure to erupt over the second prong of the patent venue statute – providing for venue where the defendant has committed acts of infringement and has a regular and established place of business – most plaintiffs will likely seek to file patent infringement suits in the state of incorporation of the defendant. Suing the company where it is incorporated prevents a plaintiff from having to prove whether there is an established place of business and limits the possibility of dismissal due to defects in venue. Thus, forming in the same state as the location of a company's principal place of business is likely to dictate where a patent infringement suit against the company is filed. In addition, by incorporating in the home state, a business can take advantage of its local courts by making the plaintiff come to it for patent litigation. Furthermore, patent disputes filed in the defendant company's home state will allow the company to utilise familiar counsel. By retaining its regular counsel, the company can avoid incurring attorney fees for local counsel in foreign venues.

While Delaware is considered business friendly, many states have begun to model their own corporate laws after Delaware and have started providing specialised corporate courts for commercial disputes. While the case law may not be as well established outside Delaware, judges often look to Delaware case law when dealing with analogous statutes. Additionally, according to a 2017 patent litigation survey by PricewaterhouseCoopers, the median damages awarded between 1997 and 2016 for patent infringement was significantly higher in Delaware than in other states: the median damages award for patent infringement cases in Delaware was \$16.2 million compared to \$5.8 million in all other jurisdictions during the same 20-year period. Admittedly, this increase could also be partly attributable to the value of the technology or patent at issue.



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Since the *TC Heartland* opinion reduces a plaintiff's ability to forum shop in patent infringement suits, companies now have an opportunity to gain more control over where litigation will take place, at least in patent cases, which are generally more expensive to litigate than general commercial cases. Thus, now is the time for a company to consider forming or reincorporating in its home state to limit the possibility of being dragged into a foreign federal court to defend a potentially expensive patent infringement case.

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